



Final Minutes
Endowment Fund Investment Board Regular Meeting
November 15, 2005

A regularly scheduled meeting of the Endowment Fund Investment Board (Board) was held in the Board Conference Room at 816 W. Bannock Street, Ste. 301, Boise Idaho on November 15, 2005. Chairman M. Dean Buffington called the meeting to order at 9:42 a.m. and recognized that a quorum was present.

Member's Present:

M. Dean Buffington
Gavin Gee
Representative William Deal
Parker Woodall
Tom Kealey
Senator Brad Little
Vaughn Heinrich

Member's Absent:

William Mitchell
John Taylor

Staff Present:

Larry Johnson
Andrew Potter
Judy Shock

Legal Counsel:

Julie Weaver

Guests:

Eric Micek, RBC Dain
Justice Burdick, JRS
Corrie Keller, JRS
Bill Reese, JRS
Larry Schlicht, DFM

Hard copies of board materials were mailed a week prior to the scheduled board meeting and a meeting notice was posted on the door of the EFIB office beginning November 9, 2005.

1. **Board Meeting Minutes: *Approved***

A motion was made by Representative Deal to approve the minutes for the August 18, 2005 Board meeting. The motion was seconded by Mr. Woodall and carried unanimously.

2. **Fund Performance and Evaluation – RBC Dain**

Endowment Fund Performance and Update - Eric Micek, RBC Dain, covered the RBC Dain Reports, beginning with the Endowment Fund reports on pages 17-30. Mr. Buffington asked if the rebalance of the funds are looked at every year. Mr. Micek answered that Clearwater checks these on a daily basis for rebalancing with derivatives. Mr. Johnson also added that cash rebalancing of funds is also initiated periodically, with one likely to occur in the next two months. Mr. Micek noted that all classes and managers are in compliance (as shown on page 20), and that overall performance is doing well, exceeding both median and benchmark for the last quarter and last 12 months (as shown on pages 25-26). Mr. Micek stated that Oppenheimer and Marvin & Palmer are currently on the "watch list". Mr. Micek and Mr. Johnson

commented that Marvin & Palmer have done better fiscal year-to-date, with an above benchmark performance. Their market style - investments in positive momentum stocks - is performing better. Also contrary to the statement on page 19, modifications made to Marvin & Palmer's strategy have not been implemented at this time. Mr. Woodall asked if EFIB staff would check their consistency with their style within six months. Rep. Deal inquired if Mastrapasqua was doing better with the move to mid cap from large cap? Mr. Micek answered that they are maintaining their style and performing above their benchmark.

State Insurance Fund - Mr. Micek stated that most SIF funds are indexed and are performing as expected (as shown in the reports on pages 31-44). Mr. Deal also stated that communication with the Insurance Fund is also going well.

Judges Retirement Fund - *(An additional performance update from Chicago Equity was passed out by Mr. Micek).* Justice Burdick, Corrie Keller and Bill Reese arrived at the board meeting at 10:10 a.m. Mr. Woodall appreciated the new abbreviated format for investment manager reports. Justice Burdick complimented Mr. Micek, Bob Maynard and EFIB staff for taking the time to work with the Judges' Retirement System. He outlined the benefits of proposed legislation that would grant the Supreme Court rule making authority over their plan. He commented that the JRS wants to be transparent as they work on these new regulations. Mr. Keller added that increases in court fees to make additional contributions will help stabilize their fund. Mr. Woodall asked how Idaho compares with other states in regards to court costs. Justice Burdick stated that costs have not been increased in several years. Mr. Keller said that Idaho was among the lowest (within a 10 state region). Mr. Keller said that he would provide a comparison of fees in the western state region. While the latest actuarial valuation as of June 30, 2005 puts the Judges' plan at 87.8% funded, there is significant risk to the downside if certain judges retire or new judges are hired. The Board suggested the Judges' plan consider merging their fund with another pension plan. The judges plan to ask Dain Rauscher to perform an asset/liability study on their plan.

Chairman Buffington requested a five minute break at 10:40 a.m. He asked that Mr. Gee, Board Vice Chairman, conduct the meeting while he is absent for approximately an hour. Justice Burdick and Mr. Keller left the meeting.

3. **EFIB Staff Reports**

The Board asked for more historical trend information on returns and assets. Mr. Potter reviewed the Market Value and New Money Received charts (pages 60-61). Senator Little asked if we get a "heads-up" from the Lands Department on whether we are on or off schedule. Mr. Potter stated that a monthly report is given. Mr. Johnson indicated that discussions are in progress with the Lands Department regarding revenue forecasts and more communication on timber harvesting. This would assist EFIB in planning ahead, establishing budgets, and avoiding shortfalls.

Expenses vs. Budget: Mr. Potter said that through October we are in good shape expense-wise. There were higher expenses paid during the search for a new Manager of Investments (express mail and teleconferences). Also, EFIB has purchased a new server and router for the computer system. Mr. Potter indicated that the annual audit is paid for in the fiscal year that it occurs. There were additional charges from Eide Bailly for special audit procedures and for a breakdown of public and pooled

accounts for the State Controller's office, so that area will be over budget by fiscal year-end. Mr. Johnson indicated that he and Mr. Potter will be developing a different type of report showing spending versus an updated forecast for the year. Mr. Potter noted that the budget for Bloomberg will be lower, at \$20,000 instead of \$31,500. Mr. Potter added that EFIB lease is prepaid through October.

Periodic Reporting: Mr. Johnson (as shown on page 63) shared that since the Investment Manager left, the process of board members and stakeholders receiving emails every two weeks regarding fund returns had stopped, but has recently been reinstituted on a monthly basis.

Also, per a special contract addendum, RBC Dain provided additional reporting during the interim period. Mr. Johnson stated that effective October 1, 2005, the additional services by RBC Dain were discontinued. He indicated that detailed reports are provided by Northern Trust and there is no longer a need to continue paying the additional \$5,000 per month to RBC Dain for this service.

Mr. Woodall made a motion that the supplemental contract with RBC Dain for special reporting and other additional work be terminated. The motion was seconded by Senator Little and carried unanimously.

EFIB Website: Ms. Shock gave a brief demonstration of the EFIB website. She showed that the secure site is up and running. Ms. Shock said that Mr. Jon Eckerle, Department of Administration has assisted with getting the agendas and approved board minutes of previous meetings from 2003 to the present. EFIB will continue to send hard copies of the board packets in the mail. The secure site will have current materials for board members. On the website, board members can log in and retrieve the documents. Mr. Woodall inquired if there is a cost to maintain this site. Mr. Potter replied there are no incremental costs – the Department of Administration supports websites for state agencies as part of their fixed charge.

The board discussed what type of mail received in the EFIB office should be forwarded to them. They concluded that general conference solicitations and boilerplate communications from managers should not be forwarded.

Office Security: Included in the board materials (pages 65-66) is a quote from Allied General Fire & Security to install a more secure locking system for the EFIB office. After discussion, the board supported the staff's recommendation to investigate the installation of motion sensors and not make changes to the doors. Outside access to the servers is protected by firewalls in Department of Administration systems. Mr. Johnson stated that the transfer of money through The Northern Trust Company is secure by provided SecurIDs. If the server was stolen, the money would be safe, because no one is able to transfer funds without the SecurIDs and passwords. The door to the server room is locked nightly and the elevator is locked on the weekends.

Expressions of Appreciation: Letters were written and signed by the State Land Board and EFIB Board members in appreciation of the work Richelle Sugiyama provided EFIB during the Manager of Investments interim period. Also, letters of appreciation were signed by EFIB Board members for: Julie Weaver, Brian

Benjamin, Jody Olson and Bob Maynard – recognizing their support and assistance during the interim period.

4. **Legislation and Policies Update**

Legislation:

Ms. Weaver shared that legislation exempting EFIB from State purchasing laws for professional services (pages 68-70), was submitted in Governor's legislative package. Mr. Johnson has also spoken with Pam Ahrens, Department of Administration. Senator Little asked Ms. Weaver to inquire what PERSI and other state agencies are doing regarding exemptions for managers and auditors. Mr. Johnson said he will draft purchasing policies for these services.

EFIB Policies: Mr. Johnson presented a revision of the Travel and Training Policy, Overtime and Hours Worked Policy and Conflict of Interest and Employee Conduct Policy for the Board's approval.

Travel Policy: Based on feedback from Ray Ineck (LSO), Mr. Johnson suggested that the draft policy be revised so that Board member expenses, except for the Chairman's, are approved by the Manager of Investments instead of the Chairman.

Mr. Woodall and Mr. Gee suggested that a list of travel expenses be reviewed by the Chairman on a quarterly basis.

Mr. Woodall made a motion that the draft policy be implemented immediately, but revised to reflect the changes discussed and presented at the next board meeting. The motion was seconded by Mr. Heinrich and carried unanimously.

Chairman Buffington returned at 12:03 p.m. and resumed responsibilities of the Chair.

Overtime Policy: Mr. Johnson stated that this draft policy (as shown on page 77) is similar to DHR's model policy and is consistent with state and federal statutes. Regarding compensatory time for travel outside of normal working hours for exempt employees, the DHR model policy will be revised to indicate that travel is not compensable unless the employee is performing actual work.

Senator Little made a motion that the Overtime and Hours of Work Policy be approved as drafted. The motion was seconded by Representative Deal and carried unanimously.

Conflict of Interest: Mr. Johnson handed out a revision to the policy that was initially distributed with the board materials, clarifying the criteria to be used by the board in evaluating acceptance of gifts in excess of \$50. Also, a log will be kept of any gift received in excess of \$5.00. This policy only applies to employees and not board members.

Mr. Kealey made a motion that the Conflict of Interest and Employee Conduct Policy be approved as drafted. The motion was seconded by Senator Little and carried unanimously.

The board asked Ms. Weaver and EFIB staff to draft a Conflict of Interest policy for board members.

5. **Next Meeting**

Mr. Johnson presented the proposed board meeting dates for 2006. Rather than hold an offsite retreat or a general meeting of all managers, the consensus was to invite two managers to each meeting, with managers to present in the afternoon, after the morning board meeting, so there is sufficient time for board members to interact with the manager.

It was determined that February's meeting be moved to February 17. May 9 was approved as a joint meeting with the Land Board. The next regular meeting will be on August 7th so the EFIB can recommend a Spending Policy ahead of the Land Board's August 8th meeting. The annual financial audit will be completed around August 15th, and the Audit Committee will schedule a teleconference after that, but in advance of the November 14 joint EFIB/Land Board meeting, to review and approve the audit.

6. **Executive Session**

Idaho Code §67-2345 authorizes the Board to enter into executive session for the purpose of discussing possible legal actions § 67-2345(1 (f) or personnel issues §67-2345 (1) (b) or §67-2345 (1) (d) records that are exempt from disclosure. Any resulting action will take place when the Board resolves back into regular session. Those issues being before the Board, Representative Deal moved to enter Executive Session, second by Mr. Gee, the roll call vote was as follows:

Senator Brad Little – Aye
Gavin Gee – Aye
Parker Woodall – Aye
Vaughn Heinrich – Aye
Tom Kealey - Aye
Representative Deal – Aye
Chairman Buffington - Aye

The board entered executive session at 12:38 p.m. and reconvened from executive session at 1:26 p.m., with a motion made by Mr. Woodall, seconded by Representative Deal and carried unanimously.

Mr. Heinrich made a motion to authorize Mr. Johnson to fill the Investment Officer position and to approve the recommended merit increase. The motion was seconded by Mr. Woodall and carried unanimously.

7. **Adjournment**

There being no further business to come before the Board, Senator Little made a motion to adjourn, which was seconded by Mr. Kealey, and passed unanimously by members present. The meeting adjourned at 1:36 p.m.